



COUNCILMEMBER DONNA FRYE

City of San Diego
Sixth District

MEMORANDUM

08-13

DATE: April 1, 2008

TO: Macias, Gini & O'Connell
Jay Goldstone, COO
Greg Levin, City Comptroller

FROM: Councilmember Donna Frye

Donna Frye

SUBJECT: Changes to the City of San Diego's 2005 Summary of Net Assets in the 2006 Comprehensive Annual Financial Report (CAFR)

On March 21, 2008, Macias, Gini & O'Connell (MGO), issued their Independent Auditor's Report for the City of San Diego's 2006 CAFR.

On March 23, 2008, the Mayor released the City's 2006 CAFR with MGO's report.

On March 25, 2008, the City Council reviewed the City of San Diego's 2005 CAFR. There was a discussion and a variety of questions raised about the City of San Diego's Summary of Net Assets (both the numbers shown in the table and the narrative that directly followed the table) shown on page 38 (attached). The City Council voted to receive and file the 2005 CAFR, with my voting in opposition for a variety of reasons disclosed during that meeting.

On page 36 of the City's 2006 CAFR (attached), there is a footnote to the City of San Diego's Summary of Net Assets table that states, "*Certain amounts have been reclassified to conform to current year presentation.*"

Upon first review, I noticed that three of the four amounts shown for 2005 Net Assets for *Governmental Activities* are different in the 2006 CAFR than what was shown in the 2005 CAFR, and three of the four amounts shown for 2005 Net Assets for *Total Primary Government* are different in the 2006 CAFR than the 2005 CAFR.

For example, the 2005 CAFR for *Total Primary Government* shows approximately \$279 million in total Net Assets that “*represent resources that are subject to external restrictions on how they may be used*” and approximately \$56 million in total Net Assets that is unrestricted and “*available to finance ongoing services and obligations to the City’s citizens and creditors.*”

In the 2006 CAFR, the amount shown for 2005 restricted Net Assets is approximately \$434 million and the amount shown for 2005 unrestricted net assets is approximately \$23 million.

Specifically, **restricted Net Assets increased from \$279,237 million to \$434,415 (approximately \$155 million), and unrestricted Net Assets decreased from \$56,224 million to \$23,266 million (approximately \$33 million)**

Please address the following questions:

1. Why were these numbers changed?
2. Which numbers are correct?
3. Are these changes material?
4. Do you believe that this information should have been pointed out to the City Council on March 25, 2008 when this specific item was being discussed? If yes, why wasn’t it? If no, why not?
5. What other numbers shown in the 2005 CAFR (for 2005) have been changed in the 2006 CAFR for 2005?
6. Please provide a list of land and properties that are currently included in the restricted net assets including the reason(s) for the restrictions.

I am requesting a written response to my questions within 30 days. Thank you.

CC: Councilmember Kevin Faulconer, Chair, Audit Committee
Honorable City Councilmembers
Honorable Mayor Jerry Sanders
Andrea Tevlin, Independent Budget Analyst
Michael Aguirre, City Attorney
Stanley Keller, Independent Monitor

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
Capital Assets	\$ 4,307,640	\$ 4,284,409	\$ 4,536,313	\$ 4,507,385	\$ 8,843,953	\$ 8,791,794
Other Assets	1,511,124	1,337,369	650,350	647,459	2,161,474	1,984,828
Total Assets	5,818,764	5,621,778	5,186,663	5,154,844	11,005,427	10,776,622
Net Long-Term Liabilities	1,876,763	1,797,521	1,866,411	1,870,766	3,743,174	3,668,287
Other Liabilities	160,423	192,679	109,123	116,070	269,546	308,749
Total Liabilities	2,037,186	1,990,200	1,975,534	1,986,836	4,012,720	3,977,036
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,472,531	3,478,769	2,867,469	2,863,136	6,340,000	6,341,905
Restricted	449,173	401,486	35,085	32,929	484,258	434,415
Unrestricted	(140,126)	(248,677)	308,575	271,943	168,449	23,266
Total Net Assets	\$ 3,781,578	\$ 3,631,578	\$ 3,211,129	\$ 3,168,008	\$ 6,992,707	\$ 6,799,586

* Certain amounts have been reclassified to conform to current year presentation

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,992,707 at June 30, 2006, an increase of \$193,121 over fiscal year 2005.

\$6,340,000, or approximately 91%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$484,258, or approximately 7%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$168,449, or approximately 2%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets increased by \$145,183, primarily due to: a decrease of approximately \$46,000 in the amount of outstanding debt for governmental activities which is not capital or housing related; an increase in revenue accruals of approximately \$30,000 for In-Lieu Vehicle License Fees and grants receivable of governmental activities; an increase of \$23,000 in capital contributions related to land acquisition credits of the governmental activities; a decrease in liability claim accruals of approximately \$21,000 resulting from claims settled in fiscal year 2005 and fiscal year 2006 and a slightly lower actuarial valuation for public liability claims; and an increase in sales of water of approximately \$12,000 in the Water Utility due to rate increases.

The deficit balance of (\$140,126) in Unrestricted Net Assets for Governmental Activities reflects the fact that governmental activities raise resources based on when liabilities are expected to be paid, rather than when they are incurred. Most governments normally do not have sufficient current resources on hand to cover current and long-term liabilities. This deficit in and of itself should not be considered an economic or financial difficulty; however, it does measure how far the City has committed the government's future taxing power for purposes other than capital acquisition.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital Assets	\$ 4,284,409	\$ 4,146,158	\$ 4,507,385	\$ 4,417,208	\$ 8,791,794	\$ 8,563,366
Other Assets	1,337,369	1,231,985	647,459	773,434	1,984,828	2,005,419
Total Assets	5,621,778	5,378,143	5,154,844	5,190,642	10,776,622	10,568,785
Net Long-Term Liabilities	1,797,521	1,676,681	1,870,766	1,901,897	3,668,287	3,578,578
Other Liabilities	192,679	156,271	116,070	122,288	308,749	278,559
Total Liabilities	1,990,200	1,832,952	1,986,836	2,024,185	3,977,036	3,857,137
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	3,600,989	3,200,262	2,863,136	2,818,690	6,464,125	6,018,952
Restricted	246,308	491,722	32,929	30,409	279,237	522,131
Unrestricted	(215,719)	(146,793)	271,943	317,358	56,224	170,565
Total Net Assets	\$ 3,631,578	\$ 3,545,191	\$ 3,168,008	\$ 3,166,457	\$ 6,799,586	\$ 6,711,648

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,799,586 at June 30, 2005, an increase of \$87,938 over fiscal year 2004.

\$6,464,125, or approximately 95%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$279,237, or approximately 4%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$56,224, or approximately 1%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets decreased by \$114,341, or approximately 67%, primarily due to an increase in the Net Pension Obligation (approximately \$58,000) as well as resources being utilized in the acquisition and construction of capital assets.

The deficit balance of (\$215,719) in Governmental Activities Unrestricted Net Assets reflects the fact that governmental activities raise resources based on when liabilities are expected to be paid, rather than when they are incurred. Most governments normally do not have sufficient current resources on hand to cover current and long-term liabilities. This deficit in and of itself should not be considered an economic or financial difficulty; however, it does measure how far the City has committed the government's future taxing power for purposes other than capital acquisition.